

78 03953

CITY OF MONTEREY PARK
INTEROFFICE MEMO

Date December 13, 1977

TO Lloyd de Llamas, City Manager
FROM Richard C. Wilkinson, Administrative Assistant
SUBJECT PURCHASING PROCEDURES FOR GOODS, SERVICES AND CAPITAL IMPROVEMENTS

INSTITUTE OF GOVERNMENTAL
STUDIES LIBRARY

Guernsey purchasing - CA - Monterey
Part 111N 12 1978

OBJECTIVE:

UNIVERSITY OF CALIFORNIA

This report will clarify the procedures followed by the City in the acquisition of a wide variety of goods and services and in the contracting for construction of capital improvements.

FACTS:

Every year the City spends literally millions of dollars in purchasing a variety of goods and services that are essential to the delivery of municipal services. In a year, the City's acquisitions will range from a simple purchase of pencils to the design and construction of a reservoir worth hundreds of thousands of dollars.

This report will review the laws governing local government purchases and public works contracts; discuss the four principal categories of purchases in the City; remark on the procedures followed in letting contracts for the design and construction of public works projects; and conclude with two recommendations to improve the purchasing system.

The four broad categories of purchases are: (1) those under \$2,000; (2) those over \$2,000; (3) special purchases; and (4) the hiring of professional services such as consultants. Each category will be discussed in terms of the current policies and procedures followed by City staff.

I. LAWS AND POLICIES GOVERNING MUNICIPAL PURCHASING

A. California State Government Code


The Government Code has separate regulations governing general local government purchases and the contracting for public works projects.

The Government Code speaks only briefly about local government purchasing of supplies, equipment and general services (section 5201 et seq.). Pencils, police cars, basketballs and fire trucks are all examples of the general category of purchases to which this state law applies.

INSTITUTE OF GOVERNMENTAL
STUDIES LIBRARY

NOV - 4 2024

UNIVERSITY OF CALIFORNIA



Digitized by the Internet Archive
in 2025 with funding from
State of California and California State Library

<https://archive.org/details/C123312411>

Purchasing Procedures for Goods, Services and Capital Improvements

December 13, 1977

Page 2

The law simply requires that every city adopt policies and procedures, including bidding regulations, governing its purchases of supplies and equipment. However, the state regulation does not specify a particular set of procedures, nor is there anything in the state law establishing a minimum cost figure above which the city is required to call for public bids. The specific dollar amount for going to bid on these general purchases is set at the discretion of each individual city council in the state. The state merely requires that each city in California adopt purchasing procedures and bidding regulations as a part of their municipal code.

State law is much more precise in its regulations governing contracts for public works projects (section 37900 et seq.). These projects include the construction of all municipal buildings, streets and sewers; the purchase of supplies and materials required for these projects; and the maintenance or repair of streets and sewers.

When the estimated cost of a public works project exceeds \$5,000, state law requires that it shall be contracted for and let to the lowest responsible bidder. The specific bid procedure is specified in the Government Code and includes requirements for notice, permissibility to reject bids and readvertise, what to do in case of emergencies and the role of the local legislative body in approving contracts for public works projects. Thus, when calling for bids to construct, widen or repair a street, the Engineering Department will follow the procedure specified in state law rather than any municipal code regulation.

B. Municipal Code Provisions Governing Purchases

The City's purchasing ordinance (section 3.20 et seq.) lists the reasons for a centralized purchasing system, outlines the responsibilities of the purchasing agent, specifies the procedures to follow in letting bids and provides for miscellaneous details of the purchasing system.

The section begins with the clear statement of why there is a purchasing system. Simply put, the goal is to acquire supplies and equipment at the lowest possible cost commensurate with the quality needed. A centralized purchasing system can more efficiently acquire the necessary goods and services for the city than if each department did their own buying. By concentrating responsibility for purchasing in one department, centralized purchasing makes more time available for department personnel to do their jobs of providing government services. It eliminates wasteful duplication in each department in providing for this complex demand. In addition, a centralized purchasing system simplifies and insures positive financial and accounting control over purchasing.

Purchasing Procedures for Goods, Services
and Capital Improvements
December 13, 1977
Page 3

Another portion of section 3.20 defines the role of the purchasing agent, who is one of only a handful of city officials discussed in the municipal code. For Monterey Park, the purchasing agent is the centralized purchasing department.

His is a lengthy list of responsibilities. These include the purchasing or contracting of supplies and equipment required by every department in the city; negotiation of contracts for acquisition of new supplies; promotion of competition; keeping informed of current developments in the field of purchasing; recommending procedures and forms for purchasing; insuring inspection of all supplies and equipment upon receipt; and preparation of specifications. The purchasing agent cannot issue any purchase order unless there exists an unencumbered appropriation in the fund account against which the purchase will be charged.

One key element of the purchasing code is the section outlining the formal contract procedures to be followed when the estimated values of general goods and services exceed \$500 for a single item or \$2,000 for a bulk purchase of a single item. This formal procedure specifies what notices shall be issued, the bid opening procedure, the permissibility of rejection of all bids, what to do in case of tie bids, and authority to require bidders security and performance bond. It echoes the state code bidding requirements for public works projects and applies essentially the same procedure to the purchasing of general goods and equipment.

The code's low minimum dollar amount for bidding has created an anomaly in the administration of the city's purchasing system. The \$500 and \$2,000 figures for bidding were adopted in 1965 and have remained unchanged since then, even though inflation has increased costs nearly 100%. The Finance Department for most of the past 12 years has applied the \$2,000 figure to both single and bulk purchases. Thus, a \$700 typewriter is purchased through an informal procedure of written quotes rather than being acquired through the formal bid procedure specified in the code. The same process would apply to the purchase of a \$700 light bar for a police car. The Finance Department uses only the \$2,000 figure as a guide. As discussed below, a single item under \$2,000 is purchased through an informal procedure, while any item over \$2,000 follows the bid process. Clearly, municipal law and department practice must be brought in alignment.

The reality of today's prices simply makes formal bidding for the relatively small or routinely purchased items unrealistic. The formal bid procedure adds significantly to the cost of relatively small or routinely purchased items although it reaps benefits when used in the acquisition of the more expensive

Purchasing Procedures for Goods, Services
and Capital Improvements

December 13, 1977

Page 4

goods. Here is why: The drawing of detailed specifications, requirements for bidders security and performance bonds, and publication or advertising of notice all force the cost of goods to the city up. For large items, these requirements pay dividends by providing greater security to the city in its purchase of the uncommon item. For the smaller items, however, these requirements would be excessive. Formal bidding for what on today's market are relatively inexpensive items may so complicate the process that certain qualified manufacturers may not even wish to participate. The significantly greater length of time needed to follow the formal bid procedure also unnecessarily delays the acquisition and use of the desired item by the requesting department. In this light, it is interesting to note the State Government Code cost figure relating to public works projects has doubled since 1965 and is now ten times larger than the bid figure specified in the purchasing ordinance for acquiring goods and routine services.

There is no persuasive reason that the minimum bid figure for the purchasing of general goods and services for the city should be any less than the minimum bid figure for public works projects. To bring law and practice into line, to more realistically reflect the increased costs due to inflation over the past 12 years and the anticipated inflation in the future, and to permit the city to operate as low cost a purchasing operation as possible, the minimum bid figures in the municipal code simply should be increased. The specific recommendation is outlined in the last section of this report.

C. Purchasing Manual

Immediately after enactment of the purchasing ordinance, the city adopted a purchasing manual which for the past 12 years has been the Bible of purchasing in Monterey Park. The manual echoes the purchasing ordinance, amplifies certain aspects of it and fills in some of the gaps not addressed by the ordinance. The purchasing manual contains extensive rules and regulations governing purchasing, bidding, guides to buying at the right price and quality, relationships with vendors and a variety of other details, most of which can be dispensed with in this report. Certain critical sections, however, will be outlined below and include the statement of principles and what constitutes the lowest ultimate cost of a product to the city.

Aside from the requirement of state law, the purchasing manual sums up the need for both a purchasing ordinance and centralized purchasing system: "Simply stated, the basic purpose in having a purchasing ordinance is to establish in writing a system that will enable the people of this city to get the most for their money." The manual continues, "the cardinal principle of an efficient purchasing system is that it be centralized under a single department

or individual." Again, by channeling the multitude of purchasing demands through a single department or individual the centralized purchasing system yields a more efficient and less costly way to go about the business of acquiring the goods needed by the city. A centralized purchasing system enables the city to buy in quantity when appropriate and provides for much more effective accounting controls over the purchasing function. At the same time a centralized purchasing system largely lifts the burden of the purchasing requirements from the shoulders of the individual department, thereby providing them more time to do the work which is their central responsibility.

A key consideration whenever purchasing an item is buying it at the proper price. The manual points out that the city must strive to purchase its needs at the lowest possible ultimate cost consistent with proper quality. Thus, the lowest cost is not necessarily the least expensive for the city. The following factors affect the low ultimate cost:

1. A low price paid to an out-of-town supplier may be outweighed by transportation and packing charges.
2. A low price paid for a large quantity may be outweighed by the cost of storage and handling.
3. A low price obtained because of inferior materials could easily result in a higher cost due to unsatisfactory service.
4. Quality must always be fully considered before attention is given to price.
5. Supplier responsibility should also be considered in determining the ultimate cost.
6. All conditions being equal, the lowest price will be selected. Thus, the bottom line stated in the bid may in fact require further research to determine exactly what the cost to the city will be.

II. CATEGORIES OF PURCHASES

A. Purchases Under \$2,000

The bulk of supplies, equipment and basic services purchased by the city fall in this category. They are generally purchased through an informal bid procedure. Depending on the familiarity with the product or service to be

Purchasing Procedures for Goods, Services
and Capital Improvements

December 13, 1977

Page 6

purchased, the purchasing agent will contact three or more suppliers and obtain quotations either in person, over the phone or, more generally, in writing. In the informal bid procedure, vendors provide the city with the specifications of their products and the purchasing agent working with the department can see how satisfactorily the product will serve the city's needs. This factor adds an element of flexibility to the purchasing process not possible under the formal bidding process.

Various service contracts such as custodial maintenance and typewriter repair will also be purchased through this informal procedure if the monthly payments on the annual contract are under \$2,000.

B. Purchases Over \$2,000

Currently if any bid or service will cost in excess of \$2,000 the city follows the formal bid procedure. This procedure is designed to guarantee maximum competition and minimum price in the acquisition of the major, less frequently purchased, items the city needs.

Formal bidding requires the drawing of detailed specifications that will encourage competition by not excluding any manufacturer. This takes time. Obviously, drawing specifications that are specific enough to realize the quality the city needs while at the same time being broad enough so that all manufacturers can be included is a challenging and demanding requirement.

Once specifications are completed, notice of the bid must be published. This notice, which includes specifications, date of bid opening and any other city requirements, may be published in local newspapers only or may be advertised in a variety of publications serving the target manufacturers.

In the bid procedure the city frequently requires bidders security and a performance bond. Bidders security guarantees to the city that the bid price is ironclad and cannot be changed. This security is in the form of cash, cashier's check or bond equal to 10% of the purchase price. It is either credited towards the purchase for the successful bidder or returned to the unsuccessful ones. A performance bond is also required of the successful bidder guaranteeing faithful and complete performance of the service or delivery of goods specified in the bid. Both bidders security and performance bonds tend to increase the cost of a product or service to the city but are guarantees that save money on major purchases, forming stronger controls by and commitments to the city. Again, for smaller items these kinds of bonding arrangements would be excessive.

Once the bids are opened, the purchasing agent does further research to verify that the lowest price will also cost the city the least (the lowest ultimate cost as described earlier). He researches and compares the quality, any delivery costs, the reliability of the manufacturer and any necessary service arrangements before deciding to recommend the lowest bid.

If an insufficient number of bids are received or the bids are too high, the City Council can reject all bids and rebid. In this case, they may also dispense with the procedure and simply select one known supplier of the product or service. Normally, of course, rebidding is best to insure maximum competition. In the extremely rare instance of tie bids, the city can either negotiate for a lower price or accept the vendor it chooses.

C. Blanket Purchase Orders, Emergency Purchases and Other Special Cases

All purchasing cannot fit comfortably in either of the first two categories. Certain special situations require special purchasing arrangements. These include blanket purchase orders, emergency purchasing, certain Library purchases and special cases specified in the municipal code.

Blanket purchase orders cover special arrangements made with local suppliers to facilitate the immediate acquisition of small items. The city has made these kinds of arrangements with office supply companies, electrical part companies, the contractor for rock, sand and gravel, and the store that makes keys for the city. It saves time and cuts red tape on those small, but necessary, items purchased irregularly by the city.

Emergency purchases are authorized when it is imperative the city immediately acquire a particular product, such as in the case of weekend sewer and water main breaks, immediate electrical hazards, and in cases where a natural disaster has affected the city. Emergency purchases are either made through blanket purchase orders, confirmation purchase orders, or petty cash.

Another special case is when departments alone are capable of purchasing a particular item. This occurs most frequently in the Library, which is also governed by the Education Code and, therefore, less directly under the control of the city's administrative requirements. Obviously, purchasing books is more efficiently handled by the Library.

Similarly, in the municipal code there is provision for individual departments to purchase specific articles directly when authorized to do so by the purchasing

agent. At this time, no departments are so authorized. Other special cases occur in the rare instances when a commodity can only be obtained from one vendor. In this case, direct negotiation is the only realistic alternative.

Finally, the hiring of professional services--architects, consultants, and consulting engineers--is always handled by negotiation, not bidding. This will be discussed at length in the following section.

D. Contracting for Professional Services

Monterey Park hires consultants to design water reservoir projects; plan check major buildings; complete the most complex environmental impact reports; to provide training of a specialized nature; program the city computer; do feasibility studies of special projects; develop financing plans for the issuance of bonds; and do a host of other specialized limited assignments. In some cases, consultants provide state mandated services, such as the monthly auditing of the city's accounting system.

Put simply, consultants provide certain critical services city staff are unable or do not have the time to do themselves. In addition, a consultant can provide an unbiased objective review of work performed by city staff to determine whether or not this work represents the best possible solution to whatever problem is being met. A consultant offers fresh approaches and innovative thinking that is available from new, different, and specialized sources.

Many individuals unfamiliar with the hiring of professional services find it difficult to understand why the same procedures that demand acceptance of the low bid for the purchase of cars, trucks, and other commodities are not applied to the hiring of consultants. Below are some of the answers.

First and foremost, when hiring a consultant, the city is after a particular result. We want a feasibility study that answers all the questions. We want an environmental impact report that accurately assesses all aspects of the impact of a project on the environment. We want a trainer who can effectively improve the skills of certain individuals on the city staff. In each of these cases a poorly done job is a complete waste of taxpayers' money and will inevitably cost the city more. The city will have to hire another consultant to do the job right, thus increasing costs exorbitantly, or worse, a worthwhile project may simply have to be abandoned. In the case of a poorly executed engineering design, the increased expense will materialize in added construction costs or a malfunctioning system which could be both dangerous to the public and expensive to correct.

A consultant is only one part of the cost of any project. By doing a job well, a consultant will achieve the result the city is after. In so doing he or she will save the city money in the long run or show us how to use our money more effectively. For example, a well designed engineering job will be the easiest to construct and save the city thousands of dollars in construction costs. An astute bond consultant will make it possible for the city to sell bonds at the lowest possible interest rate. If a training consultant does his job well, the public will be the beneficiary of improved services.

Second, when hiring a consultant the city is paying for talent and a unique set of creative skills. Just as the best entertainers expect to be paid more than mediocre ones, the most talented consultants expect to be paid a fee commensurate with their well developed skills.

To develop the necessary skills and a history of success in a particular field requires years of experience, study and hard work on the part of the individual consultant. This kind of talent does not come cheap, nor should it. To achieve the desired results, the city simply must pay for the requisite skills and talent.

Third, a consultant's approach to a problem is the key to evaluating the potential success of his firm. Since in selection of a consultant, city staff must necessarily deal in subjective terms such as talent, creativity, and best approach, precise bid specifications such as those developed by the purchasing agent when buying cars and trucks are simply impossible to draw. While the purchasing agent can specify the length of a wheelbase or a need for a V-8 engine, when hiring a consultant the city can only specify the need for individuals capable of accomplishing a given result. These individual capabilities can only be evaluated in subjective terms.

Fourth, in many cases all good consultants in the same field will charge essentially the same prices for their services. Or they will follow the recommended standardized price developed by their professional association. Here, price is no help at all in making the selection.

Fifth, for many consulting professions competitive bidding is prohibited. The American Institute of Architects, the American Institute of Consulting Engineers, the American Society of Landscape Architects, the Consulting Engineers Council of the United States, and the National Society of Professional Engineers all prescribe to the following statement: "Members for the design professions will not solicit or submit proposals for professional services, including supporting services, on the basis of competitive bidding" (from The Guide of Professional Consultation in Environmental Design). By specifying a bid

approach in hiring professional services, many of the best consultants will just stay away.

In hiring a consultant the most important step the city can take is to define the problem or identify the goal as precisely and accurately as possible. This requires city staff to do their homework in collecting and analyzing facts, assessing the conditions which created or sustained a problem, and specify the conditions which will exist when the problem is solved or the goal achieved. Other questions to ask when laying the groundwork are why and when does the problem have to be solved, and what is to be gained by solving the problem. Once the groundwork is laid, the selection process can begin.

City staff identifies the best consultants in a variety of ways. All departments, however, follow essentially the same selection process.

The first question may well be, "Is there a consultant that has already established a successful track record with the city in solving particular problems?" For example, over the past 10 years the city has used the same civil engineering consultant to design the majority of reservoirs and water wells. This consultant is very familiar with our water system and has done excellent work in the past. Similar situations exist with consultants who prepare certain environmental impact reports and with the consulting engineer who plan checks most major buildings in the city. All these individuals have a successful track record established and there is no need to look further unless there is reason to suspect either that the consultant used in the past could have done a better job or that his talents do not precisely fit the assignment at hand.

Frequently, staff must hire a consultant to perform a unique assignment. Here, the first step will be talk with peers in other cities, agencies or companies who may have dealt successfully with the same problem. Would they recommend the consultant they used? Professional associations are also useful sources for identifying appropriate consultants. Advertisements in trade journals are another source of information. The least selective process --the one fraught with the most pitfalls--is to publicize your need for a consultant and let them find you. In some cases, however, this works quite effectively such as in the hiring of architects to design major municipal buildings. Even in these instances, however, certain consultants known to have talents in a particular field are asked to submit proposals.

Depending on the costs and complexity of the undertaking, an individual department head and his staff will normally interview three to five consultants and

Purchasing Procedures for Goods, Services
and Capital Improvements

December 13, 1977

Page 11

ask the best ones to present written proposals. These proposals must be evaluated first in terms of the appropriateness of the approach of the consultant, the background of the individuals who will be providing the service, and the strength and enthusiasm of the references. Costs cannot be ignored, but must be the last consideration in hiring the best consultant. Can a less expensive consultant do an equally satisfactory job? If not, the project must be shelved, the city must bite the bullet and pay the price, or some alternative approach must be developed if possible.

Some cities use a selection committee to hire consultants for the most complex and major projects. Although Monterey Park does not normally use a selection committee, such a committee does offer the advantage of insuring the full exploration of every aspect of a consultant's proposal.

The city of Inglewood composes their selection committees as follows: the department head of the principal department, a representative from the finance or purchasing department, a representative from the city manager's office, and another department head who is tangentially involved with the project. For those projects that are politically sensitive, Inglewood has included a councilman in the selection committee.

E. A Note on Capital Improvements

Capital improvements are normally large, relatively expensive construction projects, major street repairs and water main replacements. Capital improvements require a first phase of extensive design work followed by the actual construction. The design phase is either done by the city's engineering department or by a consulting engineer hired by the process described in the preceding section. This procedure is essentially the same as the one suggested by the American Society of Civil Engineers.

Hiring of a company to do the construction phase of the public works project follows the formal bid procedure as prescribed in the state government code if the cost is in excess of \$5,000.

III. RECOMMENDATIONS

The city's approach to purchasing goods and services and hiring professional consultants has worked well in the past. However, two recommendations can be made that will improve the system:

1. As stated earlier, the municipal code and Finance Department practice regarding bidding are currently at variance. One of the

Purchasing Procedures for Goods, Services
and Capital Improvements

December 13, 1977

Page 12

key reasons is simply that the minimum bid figures in the code (\$500 for a single item or \$2,000 for a bulk purchase) are unrealistically low. At the same time, formal bidding for capital construction work begins at \$5,000. Clearly a significant increase in the minimum bid figure for general government purchases is warranted. An increase to \$5,000 would bring only the major purchases before the Council for approval, leaving the review of warrant registers and budget decisions as the checks on the more routine purchases. For ease of administration, having a single \$5,000 figure is much more clearcut than a split of \$500 and \$2,000. A single figure applying to all purchases, both single item and bulk, will conform to the realities of today's prices and practical purchasing techniques.

2. On major projects (capital improvements over \$500,000 or other consultants over \$15,000) the use of a selection committee to hire professional services such as that outlined by the city of Inglewood is an idea worth experimentation in the coming months. A selection committee may yield the best results in hiring consultants to do complex and unfamiliar projects. But real efficacy of a selection committee can only be determined after a trial run. During 1978, with the large number of public buildings planned, use of this technique can be tested to see if the participants, management, and Council feel the technique worthwhile.

RCW:rg

78 03953

U.C. BERKELEY LIBRARIES



C123312411

INSTITUTE OF GOVERNMENTAL
STUDIES LIBRARY

NOV - 4 2024

UNIVERSITY OF CALIFORNIA